

Public Testimony
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Monday, September 19, 2004, 10:00 a.m.
Moot Courtroom, Cleveland-Marshall College of Law, Cleveland State University
1801 Euclid Avenue, Cleveland

I want to start by thanking Congressman Brown and his colleagues for holding this hearing on this vital issue and for generously inviting me to testify today. I am honored to be in the company of the insightful panel that you have gathered here.

Policy Matters Ohio is a non-profit, non-partisan policy research institute, headquartered in Cleveland and with an office in Columbus. We provide high-quality research on issues that matter to working people and their families in Ohio. You can download any of our 80 studies from our webpage at www.policymattersohio.org, where you can also find some of the 300 or so articles that are written each year about our research.

Closing the low road, paving the high road

Policy Matters has long discussed the difference between what we call the high road and the low road to economic development. There are two different ways to make a profit. High road companies pay relatively high wages for their sector, provide benefits including health insurance and retirement benefits, are receptive to unions or other worker organizations, provide training, and are rooted in their communities. They recognize that better compensated employees are better able to manage the other needs in their lives, are more likely to be stable employees, and are more productive. These companies often find that their overall labor costs are lower, because they have better attendance and retention, less turnover, less workplace crime, better workplace safety,

and higher productivity.

Low road firms pay less than their competitors, provide inadequate benefits, seek to compete on price instead of quality, actively fight unionization efforts, don't train their workforce, are less rooted, and often seek to extract concessions from their communities in the form of tax breaks and relaxation of zoning, environmental and other standards.

When any business enters a community, it contributes some resources and uses others. As a society, we want to do as much as possible to promote the businesses that use fewer resources and contribute more. Some of the resources that businesses contribute are wages and other forms of compensation provided to employees; taxes, which help pay for roads, infrastructure, education and other public goods provided by government; charity, which gets a lot of attention; and various kinds of community leadership by their staff, management or board. The compensation and the taxes are by far the most important of this list.

Businesses use many resources as well. They use environmental resources – consuming water, oil, land and other natural resources and sometimes polluting the air, water, or land on which they're located. They use human resources – employing people and requiring that those people have certain needs met in order to function as employees – including having the workers educated, housed and transported, and having their children cared for in their absence. They use infrastructure – roads, bridges and other transportation systems to move their products and employees; water, electricity, telephone and DSL service; and

related infrastructure. They use public services – fire and police protection, garbage collection and waste disposal, the education system and other similar things.

If a company compensates its employees well and contributes significantly to the tax base without imposing huge environmental or other costs, then it provides a clear benefit to the area economy. For companies that pay poorly, pollute excessively, or avoid taxes, the contribution is murkier. I would argue that we should do more to “close off the low road” that is to make it difficult for companies to compete on a low-wage, low-productivity, low-quality approach, and that we should do more to “help pave the high road” that is make it easier for companies to compete on the basis of highly-skilled, well-compensated workers making high-quality products. But minimally, we should avoid giving public subsidies to companies competing on a low-road model.

Why Job Quality Matters

Job quality, in particular, matters, both to the individuals holding those jobs and to the rest of society. I’m going to talk a little bit about the public cost of low-wage jobs. When people are poorly compensated, a couple of things happen. First, depending on the compensation level of other family members or other sources of income, these people are more likely to live below or near the poverty line. With poverty comes a host of social challenges, from unstable housing, to poor nutrition, to children having difficulty in school, among other things. Not all of these can be easily quantified.

While some of these things are difficult to quantify, there are some practices that have very clear public costs. We as a society have decided that families should not be deprived of certain basic needs, so we provide some basics through the public sector if they are not provided through employment. For some people living under varying thresholds, the federal, state or local government offers certain programs to assist in meeting basic needs. These include cash assistance through the Temporary Assistance to Needy Families program, government-provided health insurance through the Medicaid program, food stamps, home heating bill assistance, subsidized school lunch, assistance with child care, and housing vouchers, among other things. It is important to note that not all families qualify for all of these, and even those who are eligible don't always get them because the programs are not always fully funded, but these are some safety net programs that Americans and Ohioans offer to assist our poor working neighbors.

Employers that compensate poorly have workers who have to rely on these government programs to meet basic needs. On some level then, other employers or other citizens are subsidizing these employers.

The Wal-Mart Model

Wal-Mart is an example of a highly profitable, efficient company – one that made \$10.3 billion in profits last year, \$20,000 a minute. Some of those profits come with high costs for the public. This next section will discuss some ways in which Wal-Mart's practices impose public costs. We rely heavily on work done by Annette Bernhardt and her

colleagues at the Brennan Center for Justice, and I'd like to thank them for their excellent work on this topic.

Most Wal-Mart employees do not get health insurance through the company – it's estimated that between 41% and 46% do, compared to 61% for all employers nationwide. Those that do have long waiting periods, pay higher deductibles than in other plans, have more preventative care excluded, and have more exclusions for prescription drugs.¹

Because of the low levels of coverage and the lower quality, many employees turn to the state for health coverage. A number of studies have documented use of public health insurance by Wal-Mart employees, finding for example that Tennessee has more than 9,000 Wal-Mart employees on the state Medicaid program, at a cost of more than \$15 million; Arkansas has nearly 4,000 such employees at a cost of about \$4 million,² and Georgia has 10,000 children of Wal-Mart employees receiving state health coverage.³ Here in Ohio, we have attempted to gather data on this issue, but our efforts have been in vain.

In addition to receiving poor levels and quality of health coverage, Wal-Mart employees are paid low wages – about \$17,285 is the average compensation for hourly employees, compared to \$24,023 for all retailers combined and \$42,839 for all employers combined.⁴

¹ "Wal-Mart Cost-Cutting Finds A Big Target in Health Benefits", Bernard Wysocki Jr and Ann Zimmerman, Wall Street Journal, 9/30/03

² "What do we know about Wal-Mart?" by Annette Bernhardt, Anmol Chaddha and Siobhan McGrath, Brennan Center for Justice, Economic Policy Brief #2, August 2005.

³ "Sizing up Wal-Mart for impact on public", Julie Carr Smyth, Cleveland Plain Dealer, 3/17/05.

⁴ This paragraph and the following section draw heavily on the work of Bernhardt et al.

Wal-Mart pays low wages and has poor benefits, but its record on other employment matters is quite troubling.

◆ **Off-clock work:** There are 40 wage-and-hour violation cases currently pending against the company, alleging that the company forced workers to work off the clock and failed to provide breaks.

◆ **Illegal retaliation:** The National Labor Relations Board has issued 60 complaints against the company since 1995 for illegal retaliation against workers who attempt to organize into unions.

◆ **Worker's compensation:** The Washington State Department of Labor and Industry found that Wal-Mart did not allow workers to file accident reports or worker's compensation claims.

◆ **Race and gender discrimination:** In what could be the largest employment class action suit in U.S. history, Wal-Mart has been charged with discriminating against women in pay and promotion. The company has been found guilty of racial discrimination in less dramatic cases.

◆ **Child labor:** Recently Wal-Mart agreed to pay \$135,540 to settle federal charges that it violated child labor laws in Connecticut, New Hampshire and Arkansas, by having children operate dangerous machinery, including cardboard balers and chain saws, sometimes resulting in injury. Previously the state of Maine fined the company \$206,650 for violations of child labor laws in every one of the 20 Wal-Marts in the state, involving

minors working too late at night, working during school hours, or working too many hours in a day.⁵

♦ **Disability discrimination:** Wal-Mart paid \$6.8 million to the Equal Employment Opportunities Commission for violating the Americans with Disabilities Act by demanding that job applicants disclose disability-related information, paid another \$6 million for discriminating against those with disabilities in hiring, and paid an additional \$7 million for other violations of the ADA.

♦ **Subcontracting:** Wal-Mart paid \$11 million for hiring contractors that did not comply with immigration laws. Another suit alleges that the employees of these contractors were paid less than minimum wage, were denied overtime and workers' compensation, and were locked in stores overnight. Audits have found that half of Wal-Mart's suppliers were in violation of local laws or Wal-Mart's own standards on child labor and workplace safety.

Finally, separate from these violations, Wal-Mart has pioneered a new way for retailers to relate to suppliers. Because it has driven out so much other local retail, the company can often set prices for its suppliers, demanding that costs be brought down if the supplier is to get the contract. This has resulted in many suppliers shifting production to lower-wage countries. I believe Heather Boushey will provide more details on this practice, but I felt it important to mention because in a manufacturing state like Ohio that has witnessed a steady hemorrhage of manufacturing employment, this approach has tremendous negative consequences.

⁵ "Wal-Mart agrees to pay fine in child labor cases", Steven Greenhouse, *New York Times*, February 12, 2005, page A1.

So Wal-Mart is an example of the kind of firm that is not deserving of public subsidies. Yet, research by my colleague Zach Schiller uncovered a job creation tax credit granted by the state of Ohio for a distribution center on which ground had actually broken before provision of the credit. Mr. Schiller is currently researching the federal new market tax credits that were granted in the current proposed Steelyard Commons project, for which Wal-Mart is to be the anchor store.

Furthermore, the watchdog organization Good Jobs First, while acknowledging that their report was not comprehensive, documented hundreds of millions of dollars in property tax abatements, land price reductions, infrastructure improvements, sales tax abatements, enterprise zone abatements, TIF subsidies, and other tax abatements granted to Wal-Mart stores in different states. This included infrastructure improvements, enterprise zone abatements and TIF deals granted to stores in Moraine, Ravenna, Streetsboro and West Chester, Ohio. The study also documented many additional hundreds of millions of dollars in subsidies to Wal-Mart distribution centers, including centers in Columbus, Grove City, Island Creek Township, and Washington Court House, Ohio, totaling more than \$40 million in Ohio alone. Remember, this is a company with more than \$10 billion in profits last year.

This is not the kind of firm that we should be using public policy to promote. We should instead reserve public subsidies for employers that meet certain requirements. Among these are the following:

1. High multiplier effects – we want to promote firms that will recycle dollars in the local economy.
 - a. Local ownership contributes to high multiplier effects because more of the profits are retained locally. Obviously, Wal-Mart is an example of a firm that is not owned locally, while Dave’s Supermarket is an example of one that is.
 - b. High wages contribute to high multiplier effects – the more that local people are paid, the fewer needs and more resources they’ll have, and the more they’ll be able to spend locally. Costco or Dave’s in the retail sector, Eaton or Ford in the manufacturing sector are examples of entities that pay more, in comparison to companies like Wal-Mart.
 - c. High value-added employment – as a rule, manufacturing has higher multiplier effects than something like retail. There can be, and often is, a good government role in bringing retail to underserved neighborhoods, but we should make sure what we’re bringing is retail that offers other elements of a high road approach.
2. High wages, good benefits, inclusiveness and good labor practices
 - a. Employees who are paid well won’t rely on other government benefits, will pay more in taxes themselves, will have more to spend in the local economy, and will have more resources to adequately meet their family’s needs.
 - b. Employees who receive benefits won’t rely on public sector benefits and will be better able to afford preventive health care.

- c. Firms that are inclusive are of more benefit to the whole community. If minority and female workers can expect equal treatment in hiring, compensation and promotion, it will add to regional equity and unity.
 - d. Firms with good labor practices will be more stable. If they have a union, then profits are more likely to be distributed among workers than to just be concentrated in the employer.
3. Good environmental practices
- a. Companies that are located in dense areas, particularly on former brownfields, do a good job of reducing sprawl and building urban vitality.
 - b. Firms located along public transportation lines can reduce emissions and fossil fuel use because employees can bus to work. They also are then more accessible to urban employees who may lack automobiles, and more accessible to many parts of the black community.
 - c. Companies that don't pollute excessively help to keep our air and water clean, improving health outcomes.
 - d. Producing positive environmental or other outcomes – for example, it would make sense to subsidize a manufacturing firm that wanted to pioneer a product that would reduce use of fossil fuels, but for which there is not yet an established market.

These are some examples of the considerations that should enter into debates about public subsidies. Wal-Mart has received many hundreds of millions of dollars in public subsidies nationally, including more than \$40 million from Ohio projects. Despite having more than \$10 billion in profits last year, it has failed to provide its employees with

adequate compensation, forcing many of them to turn to the public sector for basic needs like health insurance. Wal-Mart has also driven out local manufacturing and local retail employers and contributed to suburban sprawl and reduced urban vitality. This is not the kind of model we should be subsidizing or embracing. Thank you again for inviting me to testify today, and I'll be happy to take any questions.